

Weekly Market Commentary July 23, 2018

The Markets

Last week, there was some good news and some notable news.

Here's the good news: Corporate earnings have been strong. As of July 20, 17 percent of the companies in the Standard & Poor's 500 Index had reported second quarter results. More than 85 percent of those companies reported positive earnings surprises, according to *FactSet*, which means they earned more than expected.

"It appears the lower tax rate is more than offsetting the impact of rising costs, resulting in a record-level net profit margin for the index for the second quarter," explained *FactSet*.

Here's the notable news: U.S. stock markets largely ignored a slew of domestic and global issues to finish up a basis point or two last week. (Performance was flat when you round to one place, as we do in the table.) *Barron's* reported:

"President Donald Trump took on the Federal Reserve, telling an interviewer that he's 'not happy' about rising interest rates, the kind of meddling we haven't seen in a while. We also had the usual trade war concerns, as the president and his advisors talked about the need to take on what they consider China's unfair trade practices. China's yuan, meanwhile, tumbled in a way that was a little too reminiscent of August 2015, when its slide caused global markets to shudder. Those concerns, however, were offset by strong corporate earnings."

The U.S. bond market has been less sanguine than the U.S. stock market. Debate has focused on the flattening yield curve. The yield curve reflects the difference in yield on U.S. Treasuries from short- to long-term. Normally, investors expect to earn higher yields when they lend their money for longer periods of time (e.g. invest in longer-term bonds).

At the end of last week, two-year U.S. Treasuries yielded 2.6 percent and 30-year Treasuries yielded 3.0 percent. Some say when short-term rates rise above long-term rates, inverting the yield curve, recession is ahead.

| Data as of 7/20/18 | 1-Week | Y-T-D | 1-Year | 3-Year | 5-Year | 10-Year |
|---|--------|-------|--------|--------|--------|---------|
| Standard & Poor's 500 (Domestic Stocks) | 0.0% | 4.8% | 13.3% | 9.6% | 10.6% | 8.3% |
| Dow Jones Global ex-U.S. | 0.2 | -4.2 | 2.8 | 3.0 | 3.0 | 0.9 |
| 10-year Treasury Note (Yield Only) | 2.9 | NA | 2.3 | 2.4 | 2.5 | 4.1 |
| Gold (per ounce) | -1.0 | -5.2 | -0.8 | 3.6 | -1.5 | 2.5 |
| Bloomberg Commodity Index | -0.2 | -5.1 | 0.0 | -4.5 | -8.4 | -8.9 |
| DJ Equity All REIT Total Return Index | -1.6 | 0.6 | 3.4 | 7.4 | 7.7 | 8.0 |

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

FORWARD LOOKING CAREER: AIR BROKER. By 2050, about 70 percent of the world's population is expected to live in cities, reports *UNICEF*.

The United States is ahead of the curve. Since the 1990s, 75 percent or more of Americans have lived in metropolitan areas. The same was true in Spain, the United Kingdom, Australia, and Canada. In 2000, citizens of Mexico, Korea, and Brazil were largely urban dwelling. By 2050, China and India are expected to have almost two billion people living in cities – and neither will have crossed the 75 percent level.

If the thought of densely packed cities inspires a bit of claustrophobia, you're not alone. Anyone who has ever watched 'Green Acres' knows city living isn't for everyone. However, cities are innovation engines, reports *Fast Company*. "The more people there are in an area, and the more densely they're networked, the more startups get created and the more patents get filed."

Consider the entrepreneurial example set by a New York City (NYC) deli owner who was trying to figure out how to stay in business on the Lower East Side of Manhattan. The answer was selling air, reports *The Indicator From Planet Money*:

"So when you buy a plot of land in New York, it comes with what are called 'air rights.' That essentially says how much you are allowed to build on that plot of land. Let's say you buy a plot of land and it comes with 10 stories worth of air rights, you could build a 10-story building on it."

The deli owned five stories worth of air rights, or 27,960.66 square feet of air. How much was all that air worth? Reportedly, a developer in New York paid about \$17 million for it.

Guess who negotiates air deals in NYC.

That's right: Air brokers.

Weekly Focus – Think About It

"Growth is inevitable and desirable, but destruction of community character is not. The question is not whether your part of the world is going to change. The question is how."

--Edward T. McMahon, Author

Best regards,

"Your Beacon Wealth Management Team"

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address, and we will ask for their permission to be added.

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- * Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
- * Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
- * The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
- * All indexes referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
- * The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- * The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- * Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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<https://www.unicef.org/sowc2012/urbanmap/#> (Place cursor over the country to find country/population percentages.)

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